



AUSTRALIAN
ALUMINIUM
COUNCIL LTD

Level 1,
18 National Circuit
Barton ACT 2600
Ph: 02 6267 1800
info@aluminium.org.au

Energy Security Board (ESB)
Via info@esb.org.au

25 July 2022

Dear Chair

Australian Aluminium Council Response to Capacity Mechanism Project High-level Design Paper

The Australian Aluminium Council (the Council) represents Australia's bauxite mining, alumina refining, aluminium smelting and downstream processing industries. The aluminium industry has been operating in Australia since 1955, and over the decades has been a significant contributor to the nation's economy. It includes six bauxite mines plus several smaller mines which collectively produce over 100 Mt per annum making Australia the world's largest producer of bauxite. Australia is the world's largest exporter of alumina with six alumina refineries producing around 20 Mt per annum of alumina. Australia is the sixth largest producer of aluminium, with four aluminium smelters and additional downstream processing industries including more than 20 extrusion presses. Aluminium is Australia's top manufacturing export. The industry directly employs more than 17,000 people, including 4,000 full time equivalent contractors. It also indirectly supports around 60,000 families predominantly in regional Australia.

The Council welcomes the opportunity to provide feedback to the ESB on the Capacity Mechanism Project High-level Design Paper (the Paper). The Council will focus its response on the Capacity Mechanism Project, but within the context of the broader Post 2025 NEM reforms. As per the Council's submission in January 2022, the Council supports the development of a mechanism which incentivises the right technologies and structures to ensure the grid can be maintained in a secure state during times of maximum duress, whether that be lack of supply to match demand, or lack of demand to match supply.

The Council agrees that the National Electricity Market (NEM) is going through a once in a century transformation, as Australia moves towards net zero emissions by 2050 and that this transition will need to be carefully managed, to ensure that all consumers are provided with competitively priced, reliable, low emissions energy. However, in the context of market events in May and June 2022, the Council also recognises that capacity may have been one, but certainly not the only system constraint. The Council acknowledges that without the development of such a mechanism, the NEM is currently heading towards a system which lacks the inertia and demand requirements required to address the risk of instability. The current energy only market is no longer fit for purpose. However, in designing the P2025 market and in particular the Capacity Mechanism, the Council urges the ESB to carefully consider how consumers, including those which hold long term contracts, do not face duplicate costs as a result of this Mechanism.

Longevity of Aluminium Smelters

The Council is concerned that the Paper questions the longevity of major users such as smelters; and believes this view is erroneous. All of Australia's aluminium smelters have long term existing contracts. The expiry of these contracts for Australian smelters varies from 2025 to 2029 (with Bell Bay Aluminium in Tasmania the

first to finish). The owners of Australia’s four smelters have not given any indication of intentions for these loads to exit and have signalled their desire to recontract renewable electricity at the end of the current terms¹. The Council and its members would like this reference to longevity of major users such as smelters removed as it has no basis.

Additionally, the Paper references ACCC 2018, Retail Electricity Pricing Inquiry, p. 98-99 as evidence of large customers, such as aluminium smelters, no longer providing a role in underwriting new investment through long-term offtake agreements. The Council believes this information is dated and inconsistent with the view that the electrification of major industrial loads will constitute a large proportion of the doubling in electricity demand which AEMO has forecast by 2050. Recent evidence² is that large customers, such as aluminium smelters, are in fact in a unique position to underwrite large scale investment via equity or long term PPA offtake agreements and that without these large customers it is harder for renewable generation to facilitate entry into the market. In consideration of the Capacity Mechanism and other P2025 reforms, the Council and its members believe the ESB should consider more recent evidence of the role that major industrial users will have in an evolved electricity market.

Aluminium Industry and the National Electricity Market

Within the NEM the Australian aluminium industry has four aluminium smelters and two alumina refineries which use more than 10% of the electricity consumed in the NEM. Accordingly, the Australian aluminium industry has a strong interest in electricity policy. Electricity typically accounts for around 30-40% of aluminium smelters’ cost base, and therefore it is a key determinant of their international competitiveness. Alumina refineries, while not as electricity intensive as smelters, are also significantly exposed to electricity policy. For the aluminium industry, it is the delivered cost (including transmission) of electricity which drives international competitiveness.

The delivered electricity supply requirements of the aluminium industry, can be summarised as follows:

- least cost, and an internationally competitive electricity cost, as a minimum;
- consistent uninterrupted electricity supply;
- an ability to secure electricity supply under long-term contractual arrangements; and
- an ability to be compensated adequately for system services which smelters and refineries provide for the network and its stakeholders.

These outcomes need to be delivered within the framework of Australia’s Paris Agreement emission targets.

Aluminium smelters already offer a range of services and functions which support the network over varying weather, network demand and operating conditions, including Reliability and Emergency Reserve Trader (RERT) and Frequency Control Ancillary Services (FCAS). Smelters’ large and fast-acting interruptibility helps secure and restore stability to the network before and after contingencies occur. The industry has increasingly been called upon to support grid stability and reliability, as the challenges in managing the grid increase. Amongst the roles played by very large and continuous smelter loads are:

- Buffering the erosion of minimum scheduled demand;
- Support for the continued economic commitment and operation of large-scale synchronous generation (noting that de-commitment of synchronous units due to inadequate base demand levels can regularly remove large blocks of inertia and system strength from the system);
- Supply of certain essential system services, such as contingency FCAS;
- Potential participation in “backstop” reliability schemes such as RERT or Interim Reliability Reserve (IRR) noting that RERT is non-contingent revenue; and

¹ <https://www.afr.com/companies/energy/4b-offshore-wind-farm-proposed-to-power-smelter-20211207-p59fe4>, <https://www.abc.net.au/news/2021-11-08/alcoa-melter-pot-restart-operations-at-portland/100602358>, <https://www.riotinto.com/news/releases/2022/Rio-Tinto-calls-for-proposals-for-large-scale-wind-and-solar-power-in-Queensland>, <https://www.riotinto.com/news/releases/2022/Tasmania-and-Rio-Tinto-partner-for-a-strong-and-sustainable-future-at-Bell-Bay>

²For example <https://www.riotinto.com/news/releases/2022/Rio-Tinto-calls-for-proposals-for-large-scale-wind-and-solar-power-in-Queensland>, <https://www.afr.com/companies/energy/4b-offshore-wind-farm-proposed-to-power-smelter-20211207-p59fe4>

- Enhancing system resilience through rapid unscheduled interruptibility in the case of extreme high impact events, which, like more extreme weather conditions, are occurring increasingly frequently in the NEM and are increasingly complex to match with dispatch in real time.

For example, during May and June 2022 Tomago Aluminium provided 32 hours of modulation across 18 events which were a mixture of RERT and responding to high market price. This response by Tomago supported AEMO to manage a complex and challenging system and maintain supply to domestic customers.

Only some of the current services are explicitly remunerated, nor is their overall “real option” value recognised – namely the flexibility that retention of these large loads provides in future choices of physical and economic mechanisms to stabilise the system and market. In the absence of these loads the measures required to maintain secure and resilient operation of the grid are likely to require significant additional investment and cost to all consumers. The Council recognises that smelters, play multiple roles in the market, which are currently unpriced, or where the mechanism to value them is poorly aligned with operational practices. These services are entwined across resource adequacy, essential system services and two-sided markets; and a well implemented Capacity Market is one way to value these services.

Existing Contractual Terms

All of Australia’s aluminium smelters have long term existing contracts. The expiry of these contracts for Australian smelters varies from 2025 to 2029 (with Bell Bay Aluminium in Tasmania the first to finish). However, other major industrial facilities; including alumina refineries; also have long term base load electricity contracts. Even smelters with existing long-term contracts are not immune to changes in the market, as contracts still contain a range of change-in-law provisions. These incumbent long-term contracts need to be recognised and grandfathered where there is design change in the market, given the importance of these contracts in underpinning minimum demand and dispatchable generation.

These contracts currently bundle many markets services, including capacity risk management, required to meet continuous electricity demand at an internationally competitive price. One of the key drivers for the new markets which are currently being designed, is declining and less predictable minimum demand. However, this does not recognise that industrial loads from smelters and refineries have not reduced their minimum load and therefore, the counterparty retains their ability to manage capacity and other services on these loads through existing NEM mechanisms. These existing contracts underpin dispatchable generation and system reliability, particularly when demand is low and variable renewable generation is high. However, these contracts are not immune to changes in the market as contracts may contain a range of change-in-law and other pass-through provisions, so there is a real risk that base load consumers could pay twice for additional market services introduced to provide reliable and secure supply for customers with highly variable demand. It will also be important to the capacity costs in any future market are able to be hedged. The ESB needs to carefully consider how consumers, including those which hold long term contracts, do not face duplicate costs as a result of this Mechanism.

International competitiveness of aluminium smelters depends on the ability to secure long term, well priced contracts. For smelters seeking to recontract, it is acknowledged that decarbonised electricity will be a core aspect of future contracts. The long term nature of these contracts also underpins the ability of smelters to make the substantial capital investment required to maintain international competitiveness. Increasingly, as other industries such as alumina refineries, seek to electrify their processes to reduce emissions these assets will also require long term competitive contracts to support the commercial investment required for transformative abatement.

For those assets which are seeking to re-contract or develop new long-term contracts, this is becoming increasingly difficult with increased numbers of markets. Counterparties are less able to supply bundled contracts and as noted above there is the real risk that through bundled contracts that pre-date particular changes to the market, large users pay twice. This making it harder for industry to manage contracts rather than focussing on their core purpose of value adding to Australia’s resources.

Hence, in developing mechanisms to provide additional services, the Council's preference is that this should be by adapting the current wholesale market, rather than developing a plethora of new markets for each service. The Council's rationale for this is:

- The product being sold is quality electricity, and the services are all components which make up the production of electricity of the right *quality*.
- A single market price is more likely to support a liquid hedge market and provide consumers with greater ability to hedge. Currently, there are a limited number of price nodes across the NEM and a reasonably functioning hedge market. The introduction of additional non hedgeable markets leaves customers exposed to a greater proportion of electricity costs that are not readily contractable and could be volatile.
- These charges may end up being an add-on not covered by existing spot price on contracts, so customers with long-term contracts could end up paying extra charges on top of their agreed electricity charge for firm offtake.
- The more markets there are, the more difficult it will be to understand the interaction between them, and the less likely that each of these markets will be competitive and liquid, increasing financial risk in the contract market.
- The alternative of non-market procurement mechanisms for separate services is more likely to result in costs and inefficiencies falling largely on consumers through "smeared" cost recovery mechanisms offering no opportunity or incentives for mitigation.

Capacity Market Design Objectives

The Council welcomes the recognition that the objective for the design process is to ensure investment happens at least cost and in a manner which increases confidence, thereby reducing the need for interventions. It also welcomes the recognition to allow resources on *both the supply and demand sides* to be adequately compensated for the reliability services they provide.

In conjunction with the design and implementation of a Capacity Mechanism, the Council welcomes the ESB's assessment of the market price cap (MPC) and its potential reduction to ensure customers pay no more than is necessary. The Council notes that the MPC may be explicitly referenced in some contracts. The Council encourages the ESB to include a range of scenarios in its assessment of MPC to ensure there are no unintended consequences.

In designing the Capacity Mechanism, Members of the Council are seeking a mechanism which incentivises investment in the technologies and structures to ensure the grid supply can be maintained in a secure state during times of maximum duress. However, the Council also recognises that this investment will take time to deliver and believes that with the right design settings, the Capacity Mechanism should support both existing and new participants, as long as customers do not pay twice for the same service provision. Replacement capacity needs to be available before the exit of existing capacity. Under a well-designed mechanism the grid should continue to encourage development of new low to zero emissions generation, dispatchable demand and other technologies which can provide inertia, systems strength and dispatchability to maintain a reliable firm grid.

The Council supports the notion that in order to be operational by 1 July 2025, the design of the capacity mechanism needs to be straightforward to start with and refined over time. This should deliver a signal to investors, while ensuring consumers are not paying for unnecessary services in the market, which are hard wired into the future.

The Council supports the initial use of a centralised approach where the Australian Energy Market Operator (AEMO) forecasts capacity requirements and purchases what is required, which can then be adapted into a hybrid model where retailers take on some role in forecasting their own needs and procuring for them, from a pool of capacity procured by AEMO. This hybrid approach could increase the transparency of retailers' forecasts relative to AEMO's and the associated differences in costs to consumers.

The Paper notes in the introduction that jurisdictional derogations are introducing additional uncertainty. The principlesⁱ to guide capacity mechanism development provide for jurisdictions to derogate from the National Electricity Rules if they wish, following the process set out under the National Electricity Law (NEL). While the optionality of jurisdictional derogation is not new; the increased focus on variation for jurisdictions to develop their own path (clauses 11-14), leads the Council to be concerned that the market will not have just one new capacity mechanism, but a variety of mechanisms across the NEM. This will further add to the difficulty for major industrials to be able to find counter parties which are willing to bundle services and provide the long term contracts which are essential to underpin the capital investment industry requires.

The Council, is however, concerned that under certain combinations of design options for the Capacity Mechanism which limited the Mechanism to only new participants, and potentially certain subsets of this, as per the stated policy preferences of some jurisdictions would result in both less available capacity for dispatch and also substantially higher electricity prices which would be over and above existing contractual terms. This would essentially become a subsidy to certain types of capacity, paid for by consumers which is inconsistent with the National Energy Objective.

Feedback to Stakeholder Questions

The Council has focussed its responses on specific questions where it has additional perspectives to share with the ESB.

Q1 What measures could be put in place to improve AEMO's forecasting process and to access the best information from retailers and large customers on their likely demand?

The Council believes the current annual LTPASA process is adequate for long term forecasting, however the Council believes there are challenges with the reliability of shorter term forecasting in MTPASA and STPASAs which needs to be improved. Retailer customer churn and load should also be more frequently disclosed.

Q2 Do you agree that the capacity mechanism should provide for multiple zones being the existing NEM regions?

Yes, the Council supports this approach in that it should deliver more efficient outcomes and is consistent with current NEM structures. Within this context, the Council believes that the capacity mechanism should recognise the true dispatchability of providers and derate variable providers accordingly.

Q3 Is there sufficient evidence to say that the at-risk periods can be defined on a time-based definition?

No, there is currently insufficient evidence of this particularly with the exit of thermal resources and increased penetration of variable renewables, at risk periods are becoming harder to predict and cannot be predefined based on time.

Q4 If there is a risk of the emergence of more than one at-risk period in the NEM how should that be addressed?

This should be addressed by periodic testing the system ahead of forecasted peak time and derating based on events, not specified timing. Recent market experience indicates there are now multiple at risk periods per year and that these are changing by both season (summer v winter) and also time of day (morning, evening peaks).

Q5 The de-rating factors produced by different at-risk period definitions and modelling methodologies can show large ranges particularly for non-traditional technologies. How should this and potential year to year variability in de-rating factors be addressed?

Initially this should be done based on industry average, within a region, and can then be further derated based on the individual performance of an asset.

Q6 What approaches should be used to de-rate different technologies? Should different approaches apply to different technologies?

The Council supports the use of historical actual data for technologies in different regions. Again, this can be trued up against actual individual asset performance over time.

Q7 What is the right balance between transparency/simplicity and accuracy?

Initially, the Council suggests that a design should have greater weight on the transparency and simplicity of the mechanism, and in the fullness of time then refine the design to improve accuracy.

Q8 Should de-rating factors be determined at a technology class/region level or at a station level?

The Council believes that this should initially be at the technology class / regional level and then once better understanding of outcomes from the implemented mechanism then look for improved derating at the station level.

Q9 Do you agree with the approach to setting the forecast capacity requirement and the target capacity in a region?

Yes, the Council supports this approach in that it matches the structure of the NEM and existing markets.

Q10 How should the target capacity be determined where there are gaps in more than one region?

If one region can practically offset the reliability of another region, then this should be implemented to deliver an efficient and least cost approach. However, the Council is not sure of the practicality of this. The simplest solution may be to keep each region independent, at least initially.

Q11 Should retailers have a role in a centralised capacity mechanism?

The Council does not have a strong opinion on this. However, for most wholesale customers such as smelters, electricity whilst important, is not the core business, so if significant administration and burden were imposed by having to fulfil a role in a capacity mechanism, this would not be supported.

Q12 If you support retailer involvement in procurement, what are your views on how this could operate?

Retailers should have a role only to the extent this could reduce costs and improve liquidity in capacity. The Council notes that the WEM Capacity Mechanism works well in this regard and believes the approaches could be aligned.

Q13 Do you agree with holding two auctions for each delivery year and is this timing appropriate? If no, what auction frequency and timing is appropriate and why?

The Council believes that there should be an initial auction two-four years out and if sufficient capacity is procured, no further auctions are required. Supplementary auctions are run only if it is necessary (i.e. a capacity shortfall). This would incentivise a long term approach to provision of capacity by both the supply and demand side.

Q14 How should the timing of the auctions align with the notice of closure obligation?

Auctions should be held at a time following the closure notice window to enable such capacity implications to be considered by the market. The Council suggests this would be at least three months.

Q15 What are your views on how existing and new capacity should be treated in the auction process?

Both existing and new capacity should be included in the auction processes, but the value and likely longer term nature of the new capacity should be recognised.

Q16 Are there other considerations the ESB should take into account for the detailed design?

Capacity must be actually dispatchable, which would exclude variable renewable capacity.

Q17 Do stakeholders have a view on the optimal duration of certificates or price certainty for new capacity?

The Council would support a seven year duration for new capacity and a single year duration for existing capacity.

Q18 Do stakeholders have a preference as to whether the investment support scheme provides guarantees of price only, or of both price and quantity?

This should provide a guarantee of both price and quantity for capacity procured, incentivising new entrants which is one of the major intents of this mechanism.

Q19 Internationally, capacity mechanisms rely on some multiple of the net-cost of new entry (net-CONE) assessment to determine the capacity mechanism market price cap. Is this appropriate or should an alternative approach be used?

The Council supports a technology neutral approach but believes a cap should be developed based on a price net back of cost of new entrants for new technologies which will be required into the future such as batteries, pumped hydro and run of river hydro.

Q20 How should the price settings interact with the energy market price? Over time, when settings are regularly reviewed, should the price settings in the capacity auction and the energy market be jointly determined?

No, the capacity market should operate in isolation, although there should be no double dipping and the market price cap under the energy only market should be reduced. The capacity market should vary and adapt to supply and demand in this market, which will not necessarily mirror the energy only market.

Q21 Are there other considerations the ESB should take into account when determining demand curves in the detailed design?

No, the Council believes the current range of considerations is adequate.

Q22 While the RRO requires mandatory participation for the largest three participants in a region, the ESB considers a methodology for determining market power should be applied to account for changing market concentration over time. Are there specific market concentration thresholds of concern?

The Council has no strong opinion on this matter.

Q23 Should market power mitigation measures be applied to capacity providers with large market shares in supply-side regardless of their market share in retail?

The Council has no strong opinion on this matter.

Q24 Do stakeholders support the proposal to integrate capacity mechanism settlement with the existing NEM settlement process? If not, what alternative process would better meet the design objectives?

Yes, this is consistent with processes in the WEM, this should be integrated with existing settlement processes.

Q1 Do you have preliminary views on compliance obligations for capacity providers?

On compliance the Council supports an ex ante assessment, actual real time incentives, no penalties if outside the assets control but strong penalties for non-delivery when there is failure to provide at the time of need.

Q2 Do you have views on compliance obligations for new entrant capacity in advance of the delivery year?

The only obligations are as above.

Q3 Do you support the ESB's proposed performance model for consultation? If no, what other proposed model would be better and why?

Yes, the Council supports this model. Performance should be (i) all year round and (ii) performance during LOR 2&3 events.

Q25 Are there any issues with using LOR2 and LOR3 as the trigger for capacity payments? If yes, please explain the issues and any alternative triggers.

The Council does not have any issues with this. However, it will be important to differentiate between this and how the trigger will differ from the current RERT system.

Q26 How would an appropriate methodology year-round availability be determined?

This could be an industry average availability minimum for that technology.

Q27 Do you support the ESB considering capacity payments based on availability throughout the year and during periods of system stress?

Yes the Council supports this.

Q28 If you support payments based on two factors, what is the preferred distribution of the first and second payment? Should more or less weight be given to responding to events?

The Council acknowledges that for different capacity providers, there will be a different weighting to the two factors. From a pure market perspective, more weighting should be given to stress events, but for some capacity providers such as demand side response a year round payment would incentivise more provision of capacity. A year round capacity payment incentivises investment for both supply and demand side to be able to provide capacity, whereas emergency response is contingent and doesn't incentivise participation or investment.

Q29 To support revenue smoothing, should the ESB consider grouping events within the delivery year? If yes, what frequency (such as quarterly or monthly) is appropriate?

The Council has no strong opinion on this matter.

Q30 Should an upper threshold of performance events in a delivery year be considered? If yes, what is an appropriate threshold?

The Council has no strong opinion on this matter.

Q31 Are there any other interactions with the existing energy only market that the ESB should consider when designing the capacity mechanism performance obligation?

The ESB should seek to eliminate the risk of double payment for the same services and that capacity can be dispatched by AEMO. The ESB should also consider some of the practical out workings of the capacity mechanism implementation in the WEM, where lack of appropriate processes and governance led to certain capacity being procured that could not actually be dispatched.

Q32 Are there any other compliance issues the ESB should be mindful of in detailed design?

Only those mentioned in responses further above.

Q33 Are there any other implications the ESB should consider in detailed design?

As discussed elsewhere in this paper, existing long term contracts for major loads, such as smelters, currently bundle many markets services, including capacity risk management, required to meet continuous electricity demand at an internationally competitive price. One of the key drivers for the new markets which are currently being designed, is declining and less predictable minimum demand. However, this does not recognise that industrial loads from smelters and refineries have not reduced their minimum load and therefore, the counterparty retains their ability to manage capacity and other services on these loads through existing NEM mechanisms.

The ESB should therefore consider how to fairly treat these contracts in the detailed design so that holders of long term contracts do not end up paying twice for provision of the same service, both in their existing contract plus change in law pass through of the new market. The Council believes that the Capacity Mechanism should also consider recognition of 'load capacity' that supports minimum demand.

Q34 What is the appropriate combination of performance obligation and capacity de-rating methodologies?

If the mechanism is intended to reward providers for availability, then it needs to be derated based on (i) actual availability and (ii) actual performance, with penalties for (ii) if registered as available.

Q35 Should de-rating be based on pre-defined time periods or a forecast of when the anticipated trigger periods are expected to occur?

This should occur based on when events actually occur, as well as pre-defined testing periods on an ex ante basis.

Q36 Given VRE is likely to be particularly affected by any mismatch in the forecast and actual conditions during performance events, should special consideration be given to VRE's compliance with the performance obligation?

VRE is not dispatchable and should not be included in the capacity mechanism.

Q37 Do you think the MPC should be reduced if a capacity mechanism is introduced, and if so, by how much? What key issues should the ESB take into account when considering this issue?

The Council supports a reduction of the MPC to ensure customers pay no more than is necessary. The WEM could be used as a template for benchmarking of prices, but consideration should also be given to long term contracts to ensure value is not eroded.

Q38 Do you agree that costs should be passed on via retailers, rather than NSPs?

Costs should be passed on via retailers, not NSPs, and directly for large customers. The definition of Customers must include batteries (when operating as loads). The WEM could possibly act as a template for this process.

Q39 What do you consider to be the most appropriate mechanism to allocate costs to retailers?

The Council does not have any strong views on this but suggests that processes like that applied in the WEM capacity market could be considered, where incentives are provided to consumers to reduce their own load during periods when capacity is required to perform (and aligned to the de-rating principles discussed earlier).

Q40 Do you think that Option 1 or Option 2 better meets the assessment criteria?

The best option is the one which most practically works to support LOR2&3 in a region at the lowest cost. The Council does not have a view on which better achieves this.

Q41 Are there any other factors that the ESB should consider when assessing the relative merits of the options?

The Council has no further comment on this.

Q42 Are there other ways to ensure that procurement of interstate capacity resources does not exceed inter-regional transmission limits, in addition to the two approaches outlined above?

Q43 Do you think that where a market interconnector exists between two regions, it should be the entity that is eligible to submit inter-regional capacity bids?

Q44 Do you think that proposed new market interconnectors should be able to participate in the capacity mechanism?

The Council cannot meaningfully respond to the above questions, though suggests that if interstate capacity is allowed to participate in the market, then such capacity must be dispatchable and able to respond without jurisdictional interference (be that transmission related, government related or other). Any jurisdictional interference will undermine the capacity mechanism capability.

Conclusion

The Council supports the development of a mechanism which incentivises the right technologies and structures to ensure the grid can be maintained in a secure state during times of maximum duress, whether that be lack of supply to match demand, or lack of demand to match supply. This Mechanism should incentivise investment in the technologies and structures to ensure the grid supply can be maintained in a secure state during times of maximum duress, but should at least initially support both existing and new participants, as long as customers do not pay twice for the same service provision. A well designed Mechanism should allow resources on both the supply and demand sides to be adequately compensated for the reliability services they provide and ensure customers pay no more than is necessary.

The Council seeks a national climate and energy policy framework which is transparent, stable and predictable, while maintaining the economic health of the nation including vital import and export competing industries. The P2025 market design is a crucial aspect of this for the aluminium industry.

The Council is aware that the ESB is intended to undertake detailed consultation on the inclusion of demand side capacity and cost allocation. Given the importance of market design and cost pass through to the Council and its Members, we will contact the ESB to discuss how to be directly involved in this detailed design work, in particular to ensure that consumers do not face duplicate costs as a result of this Mechanism. Additionally, the Council and its Members will continue to be actively involved in the P2025 market design and looks forward to continuing to work further with the Energy Security Board, the Department and other agencies on its development.

Kind regards,



Marghanita Johnson
Chief Executive Officer
Australian Aluminium Council
M +61 (0)466 224 636
marghanita.johnson@aluminium.org.au

¹ <https://www.energy.gov.au/sites/default/files/2021-10/Principles%20to%20guide%20Capacity%20Mechanism%20development.pdf>